

An Overview of the Romanian Banking System

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Abstract

The banking industry in any country ensures, due to the specific nature of its activity, a key role in the functioning of economic mechanisms, with an impact on macroeconomic developments, on the dynamics of the business environment and on the improvement of the Romanian economy. The 32 credit institutions that make up the banking sector in Romania had net assets of 803.4 billion lei in 2023 and have recorded an acceleration in profitability compared to recent years, achieving a net profit of 13.7 billion lei. In addition to the banks' lending role, they also attract deposits, thus protecting the savings of the population and companies. Banks support the economy by granting loans, but it is important that they go to the sectors with the highest development potential and which create well-paid jobs.

Keywords: banking system, banks, credit, saving

1. Introduction

The Romanian banking system includes the National Bank of Romania and the existing commercial banks that operate within the economy in a certain period of time. Banks offer a range of specific operations, provided for by national legislation, namely attracting deposits and offering loans. [1-3]

The number of credit institutions at the national level has decreased in the last twenty years from 41 to 32 credit institutions. [4]

Today we are witnessing an expansion of information technology that has led to the emergence of a new form of banking. The physical presence of customers in the traditional bank, as part of the banking activities, has recently been replaced by electronic banking through new distribution channels, namely the Internet and mobile services, a fact that has improved the quality of service provision and reduced costs. [5]

Banks play the role of intermediary between creditors and debtors. Through their primary role, as part of the banking system, in the event of difficulties or inability to pay for some among them, disruptions may occur in the functioning of the financial system. [6]

The banking system performs functions that give it power and importance in the functioning of modern economies.[7]

The activity of the banks is carried out as stipulated in the banking legislation, which is very complex and includes laws and ordinances aimed at ensuring the efficiency of these institutions.[8,9]

The operations developed by the banking institutions include operations in current accounts in deposits, operations through payment instruments, credit granting and monitoring operations, operations related to cards, operation in foreign currency. [7]

The use of bank loans represents the important resource that positively affects financial and economic activities.[10]

The purpose of this article is to highlight the main aspects related to the developments recorded by the

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banking system in Romania, for the period 2019-2023.

2. Material and method

To write the article, the authors used, in support of the research, methods such as documentary analysis, information synthesis, graphic production, classification, comparative analysis, investigation, which supported the fact that the tendency to improve the Romanian banking system continued in 2023, in the context of the challenges generated in macroeconomic and geopolitical terms.

This radiography of the banking system was based on specialized articles, reports, statistics, analysis of information provided by the BNR and other specialized websites, and relevant conclusions were formulated regarding the trends of the banking system in Romania in the last five years.

3. Results and discussions

The specificity of the activity in Romania, regarding the banking industry, ensures a key role in the proper functioning of the mechanisms in the economy, having an impact on the dynamics of the business environment, the macroeconomic evolution, and the improvement of economic prosperity.

In recent years, mergers and acquisitions have taken place, and some banks have left the Romanian market.

The banking sector (Figure 1) included in 2023, 32 credit institutions, eight of which were branches of foreign banks. Net assets amounted to 803,407.20 million lei at the end of 2023. Of the net assets of the Romanian banking sector,

86.30% belonged to institutions with foreign capital, the trend being downward compared to 2019, when the level recorded was 91.80 %.[9, 11, 12]

The rates are analysis tools, through which a large volume of information can be synthesized in a form that is easy to understand, interpret and compare.

Regarding the rate of return on the basic activity, it advanced from year to year, increasing by 17.99% in 2023 compared to 2022, and by 6.41 percentage points in 2022 compared to 2021.

Soundness indicators enabled the proactive approach, so that customer problems were absorbed and credit growth followed a sustained pace.

The solvency assessment indicator (Table 1) remained above the applicable prudential requirements, being higher than the European average of 19.9%, registering a percentage above the required minimum of 22.51 according to NBR data. This value shows that banks in our country still have a lot of room to increase lending.

The loan-to-deposit ratio decreased to 67.84%, liquidity exceeded 280%, and the rate of return on activity reached 209.88%.

The Loans granted/Deposits attracted ratio is an important indicator that shows the financial stability of a bank. This indicator is presented in table 2 for the top four banks in the Romanian market.

Transilvania Bank (Table 2 and Figures 2 and 3), the largest bank in Romania, also recorded successes in 2023.

Through repeated acquisitions, Transilvania Bank is in first place, with a market share in 2023 of 20.1%, from under 10% in 2014.

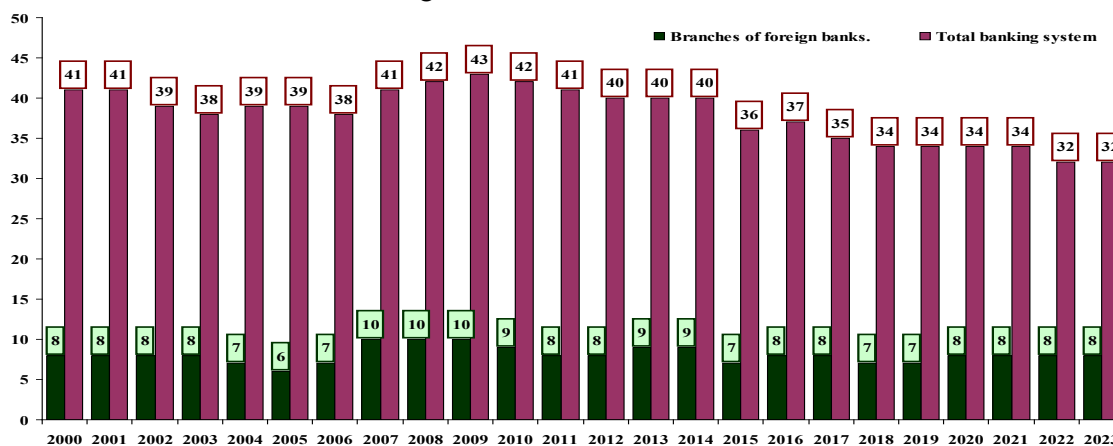


Figure 1. The evolution of the banking system in Romania

Source: <http://www.bnro.ro>

Table 1. Aggregate indicators regarding credit institutions

| Years | Total net assets (millions) | Assets institutions with private capital (% of total assets) | Rate of return on the core business (%) | Solvency indicator (%) | Loans granted / Deposits attracted (%) |
|-------|-----------------------------|--|---|------------------------|--|
| 2019 | 495,214.22 | 91.80 | 184.09 | 22.00 | 70.99 |
| 2020 | 560,034.17 | 89.40 | 185.74 | 25.14 | 63.89 |
| 2021 | 639,754.48 | 88.60 | 185.48 | 23.32 | 68.80 |
| 2022 | 701,008.78 | 87.90 | 191.89 | 23.40 | 71.42 |
| 2023 | 803,407.20 | 86.30 | 209.88 | 22,51 | 67.84 |

Source: Authors' table based on the data from <http://www.bnro.ro>

Table 2. Aggregated indicators regarding the first banks in Romania in 2023

| Banca | Assets (billion lei) | Market share (%) | Loans (billion lei) | Deposits (billion lei) | Loans granted / Deposits attracted (%) | Profit (billion lei) |
|-------------------|----------------------|------------------|---------------------|------------------------|--|----------------------|
| Transilvania Bank | 169.20 | 20.1 | 75.60 | 138.10 | 74.40 | 2.98 |
| BCR | 108.8 | 13.4 | 58.74 | 78.48 | 75.20 | 2.32 |
| BRD | 83.84 | 10.1 | 40.82 | 62.40 | 65.40 | 1.65 |
| Raiffeisen Bank | 70.00 | 8.7 | 40.70 | 54.00 | 75.37 | 1.70 |

Source: <https://futurebanking.ro/cum-a-fost-2023-pentru-bancile-din-roman>

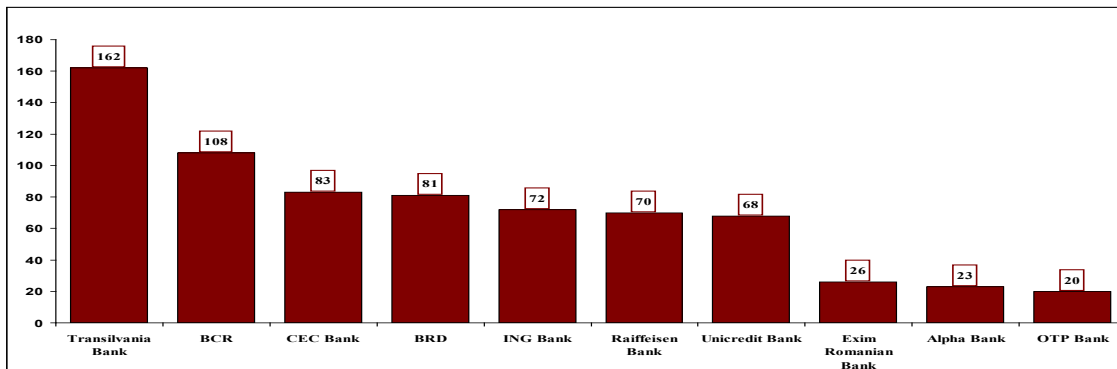


Figure 2. Top banks by net assets, 2023 (billion lei)

Source: <http://www.bnro.ro>

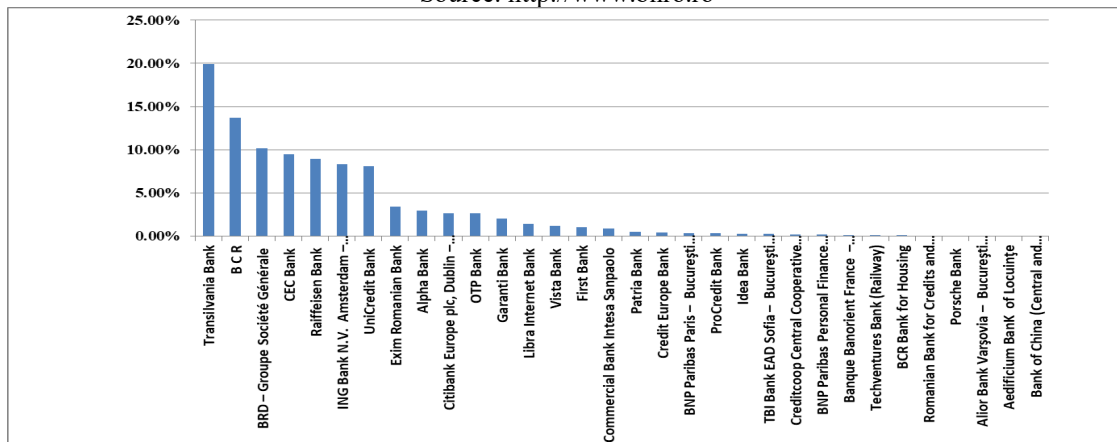


Figure 3. Market share in 2023

Source: <http://www.ziare.com>

The financial group recorded a net profit of 2,984.5 million lei, the value of loans reached 75.6 billion lei in 2023 compared to 2022 (270,000 new loans), and customer deposits recorded a value of 138.1 billion lei.

The loans/deposits ratio decreased slightly to 74.4% due to the increase in customer deposits, which exceeded loan advances.[12-14]

The year 2023 was marked by an increase in the value of net banking assets, and the banking system recorded the highest profit values in the history of financial institutions, with a value of 13.7 billion lei (Table 5), 34% more than in the year 2022.

Regarding the profitability of the banking sector, the considerable consolidation continued in 2023, thus the indicators regarding the efficiency of the use of capital and assets was 20.4 percentage points (ROE) and 1.8 percentage points (ROA) compared to 16.4 percentage points and 1.5 percentage points in 2022. [13]

Banks, along with the lending activity, also have the role of attracting deposits, thus protecting the savings of the population and non-financial companies.

Loans (Table 3) granted by Romanian credit institutions to households in the last five years increased by 17.73%, and those granted to non-financial companies were boosted by 39.5% of loans, which demonstrates the support provided by the banking sector for the development of Romanian society.

From the analysis of the loans granted to the households of the population, we found that the loans for housing are representative and had an increasing trend, as well as the loans for consumption.

The sudden increase in IRCC had the effect of collapsing the volume of loans at the end of 2022. During 2023, banks began to offer fixed, attractive interest rates, which resulted in increased volumes for new loans and refinancing.

As a result of the increase in the population's confidence in the banks' ability to protect savings, we witnessed an increase in the level of deposits of individuals and legal entities.

During the analyzed period, we noticed that the deposits of households (Table 4) increased by over 34%, and the deposits of non-financial companies by 40.6%.

Table 3. The evolution of loans in the period 2019-2023

- million of lei-

| Years | The loan granted to the households of the population | | The loan granted to non-financial companies | |
|-------|--|-----------------------|---|-----------|
| | Total | Loans for consumption | Loans for housing | Total |
| 2019 | 143,059.1 | 61,881.5 | 81,177.6 | 117,747.8 |
| 2020 | 149,877.5 | 60,693.2 | 89,184.3 | 123,962.4 |
| 2021 | 164,349.7 | 63,658.7 | 100,691.0 | 148,514.4 |
| 2022 | 171,496.0 | 65,328.8 | 106,169.2 | 176,489.1 |
| 2023 | 173,892.4 | 68,121.0 | 105,771.0 | 194,710.0 |

Source: Authors' table based on the data from <http://www.bnro.ro>

Table 4. The evolution of deposits in the period 2019-2023

- million of lei-

| Years | The deposits of the households of the population | | | The deposits of the non-financial companies | | |
|-------|--|--------------------|---------------|---|--------------------|---------------|
| | Total | Overnight deposits | Term deposits | Total | Overnight deposits | Term deposits |
| 2019 | 222,398.9 | 103,843.4 | 118,550.5 | 127,903.5 | 91,937.8 | 35,965.7 |
| 2020 | 256,680.1 | 133,672.9 | 123,007.2 | 147,475.1 | 108,467.0 | 39,008.1 |
| 2021 | 283,869.2 | 173,157.6 | 110,711.8 | 175,344.0 | 129,365.6 | 45,978.5 |
| 2022 | 302,699.9 | 169,658.6 | 133,039.7 | 187,405.7 | 119,849.1 | 67,556.6 |
| 2023 | 337,993.6 | 160,851.6 | 177,142.0 | 215,350.8 | 129,448.3 | 88,902.5 |

Source: Authors' table based on the data from <http://www.bnro.ro>

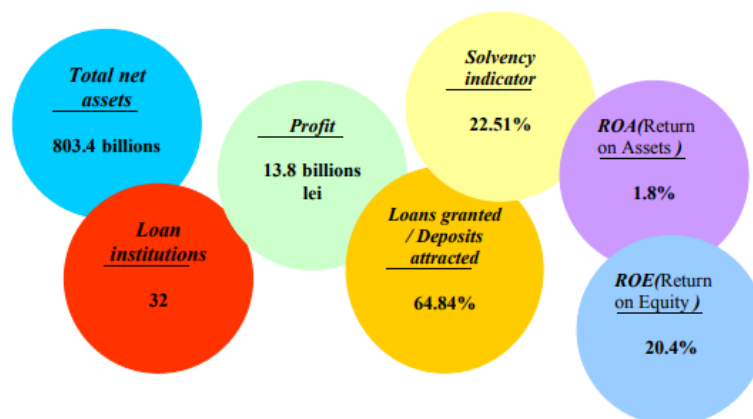


Figure 4. The main indicators at the level of 2023 for the banking system in Romania
Source: <http://www.zf.ro>

"Overnight" deposits that are opened for one working day offer the possibility of obtaining additional income for households, the population and non-financial companies as a result of the lack of commissions and interest rates higher than those in the market. In the case of non-financial companies, it offers the possibility of use for temporarily free funds, which will remain at the disposal of the company, obtaining a bonus at night, through negotiable interest for excess liquidity.

In the period 2019-2023 (Table 4), an upward trend can be observed for this type of deposits, both in the case of households and non-financial companies.

The positive evolution was also maintained in the case of term deposits.

The banking system (Table 5) accumulated a profit of 43.6 billion lei in the five years analyzed. Economists estimate that 2023 (Figure 4) was the best year for the Romanian banking system after the financial crisis we went through. The banking system has certainly proven to be part of the solution. The financial institutions supported Romania's economy and the population through the financing granted. The Romanian banking system financed the national economy, which recorded a considerable advance from the last ones. The advance of the assets of the banking system followed an upward trend, as well and saving increased considerably in the analyzed period (Tables 1 and 4).

Table 5. Profitability of the banking system

| Years | Profit value (billions of lei) | Differences from the previous year (%) |
|-------|--------------------------------|--|
| 2019 | 6.3 | -7.2 |
| 2020 | 5.1 | -19.5 |
| 2021 | 8.3 | 14.4 |
| 2022 | 10.2 | 24.4 |
| 2023 | 13.7 | 34.0 |

Sources: <http://www.bnro.ro>, <https://www.profit.ro>

Table 6. The top of the investors in the Romanian banking system in 2024

| Source of capital | Market share (%) |
|-------------------|------------------|
| Romania: | aprox. 35 |
| from which | |
| Romanian state | 12 |
| capital | |
| Austria | 23 |
| Italy | 14 |
| France | 11 |
| Netherlands | 10 |
| US | 3.5 |
| Greece | 2 |
| Turkey | under 2 |
| Germany | under 0.5 |
| Other | 1 |

Source: NBR; <https://www.economica.net>

According to Economica.net, in 2024, the number of banks will be reduced to 27, and domestic

capital will have the majority share (Table 6) in our banking system. In 2024, the following banks will disappear: First Bank which will be acquired by the Intesa San Paolo Bank Group, Alpha Bank Romania which will merge with UniCredit Bank Romania, OTP Bank Romania will be acquired by Banca Transilvania, which also took over Volksbank Romania, Bancpost and Idea Bank. To these is added the renunciation of the credit institution authorization by Aedificium Banca pentru Locuinte SA (ABL), the suspension of the operations in Romania of the consumer finance division by BNP Paribas Personal Finance.[15]

However, there are three banks, one state-owned and two digital: Investment and Development Bank, owned by the Romanian state, through the Ministry of Finance, Revolut Bank with a license obtained in Lithuania, operational as the bank's local branch from the beginning of 2024, Raiffeisen Digital Bank AG and IdeaBank becomes Salt Bank, the first 100% digital Romanian bank. [15, 16]

Conclusions

The evolution of the Romanian banking sector continues to demonstrate solidity and resilience and that it can fulfill its mandate.

The solvency and liquidity indicators emphasize that the banking sector is among the most solid systems within the European Union.

The primary data through which the authors identified the evolution trends of bank deposits, as well as loans, demonstrate the growth trend in the studied period.

The banks' revenues had a strong rise, due to the jump in interest rates and the granting of credits that contributed to the banking system achieving a record profit in 2023.

In conclusion, the Romanian banking system represents the pillar of the national economy. This is due to the fact that it connects the needs of companies and the population with the diversity of credits, which will complete the financial resources indispensable for the development of

their activity, which will boost investments and intensify consumption.

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